

HAYWARD CITY COUNCIL

RESOLUTION NO. 90-098 C.S. ALG

Introduced by Councilmember RANDALL

RESOLUTION APPROVING THE CREATION OF A REVOLVING
LOAN FUND PROGRAM

WHEREAS, on May 27, 1986, the City Council adopted the Economic Development Program recommended by the Economic Development Committee ("EDC") and staff;

WHEREAS, the 1989 annual report of the EDC and staff recommended that a Small Business Revolving Loan Fund be funded and implemented; and,

WHEREAS, the City Council has previously approved the establishment of a Revolving Loan Fund, presently containing a total of approximately \$960,000, funded by repayment of a Community Development Block Grant Program ("CDBG") loan in the amount of \$700,000, previously made to the Redevelopment Agency and a CDBG grant of \$260,000 from the 1989-90 CDBG Block Grant Program approved in May, 1989; and

WHEREAS, the City Council has reviewed the report and the recommendations of the EDC and staff regarding the establishment of a Revolving Loan Fund program;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward as follows:

1. That it authorizes the establishment of a Revolving Loan Fund Program to provide funding to businesses which meet the Small Business Administration's definition of a small business in order to promote one or more of the following objectives:
 - a. Create and retain jobs for low- and moderate-income persons, particularly low-income persons.
 - b. Enable the improvement of the facades of existing small businesses in order to contribute to revitalization of the area where such businesses are located.
 - c. Leverage private and other public investment to stimulate more resources for economic development in the City of Hayward.


2. That the City Manager is hereby authorized to develop and administer such rules and regulations and take such further steps which he or she deems prudent and necessary for the operation of a Revolving Loan Fund Program, in accordance with the applicable rules and regulations established by the United States Department of Housing and Urban Development for CDBG funded programs, or the applicable rules and regulations of other sources of loan funds as may be used, subject to the following general guidelines:
 - a. That special priority for loans be accorded to eligible small businesses which are located in the CDBG target areas in the City of Hayward.
 - b. Loan applicants will be required to demonstrate that they have been in business for at least two years and loans from the Revolving Loan Fund Program shall be provided primarily to provide "gap" financing to eligible small businesses, in order to minimize the extent of Revolving Loan Fund Program participation.
 - c. That any loan recipient, except those which specifically serve designated CDBG target areas, be required to execute a First Source Employment Agreement obligating the loan recipient to take steps to make available at least 51 percent of those permanent jobs which are created or retained as a result of assistance from the Revolving Loan Fund Program to persons of low to moderate income, particularly low income persons.
 - d. That the meetings of any loan review committee established by the City Manager be subject to the Ralph M. Brown Act.
3. That the City Manager provide a biannual report on the operation of the Revolving Loan Fund Program to the EDC and to the City Council, including an evaluation of whether holding loan review committee meetings in public has affected the program, with the first report to be presented to the City Council on or before May 31, 1991.

IN COUNCIL, HAYWARD, CALIF. May 8, 1990

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCILMEMBERS: JIMENEZ, ARAGON, CAMPBELL, COOPER, RANDALL, WARD
MAYOR: SWEENEY
NOES: COUNCILMEMBERS: NONE
ABSENT: COUNCILMEMBERS: NONE

ATTEST:


City Clerk of the City of Hayward

CITY OF HAYWARD
REVOLVING LOAN PROGRAM
PROGRAM DESCRIPTION

HISTORY

On May 27, 1986, City Council adopted the Economic Development Program as recommended by the Economic Development Committee (EDC) and Community and Economic Development (CED) staff. As a part of its 1989 annual report, and, in conjunction with the Economic Development Program, EDC and staff recommended that a Small Business Revolving Loan Fund Program be funded and implemented.

In the spring of 1989, EDC forwarded a letter of support to the Citizens Advisory Commission urging that they allocate funding to create a Revolving Loan Fund. The Citizens Advisory Commission included in the 1989-90 Block Grant funding recommendation a \$260,000 grant to CED for the purpose of establishing a Revolving Loan Program. An additional \$700,000 from repayment of a 1981 Redevelopment loan also was allocated to the Revolving Loan Program, providing a total of \$960,000. The Council approved this funding in May 1989.

ECONOMIC DEVELOPMENT AND REVOLVING LOAN FUND OBJECTIVES

The Revolving Loan Fund Program addresses four of the City's Economic Development Policy Objectives:

- I. Increase hiring of local residents, particularly unemployed or disadvantaged workers, in local jobs that pay living wages.
- II. Support job-generating small business growth and development.
- III. Strengthen sales tax base by supporting growth in tax-generating retail, service and industrial sectors.
- IV. Retain and expand industrial development to diversify our economic base.

In accordance with the Community Development Block Grant regulations, the Revolving Loan Fund will address two areas of community need:

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In accordance with the Community Development Block Grant regulations, the Revolving Loan Fund will address two areas of community need:

1. Job creation and retention for low- and moderate-income people throughout the City of Hayward; and
2. Assistance to commercial businesses serving low- and moderate- income residential areas within the City of Hayward.

CED staff has established five Revolving Loan Fund program objectives designed to meet these needs and the Economic Development Policy Objectives of the City:

1. Create and retain low- and moderate-income jobs.
2. Improve facades of existing businesses to revitalize the area where they are located.
3. Construct new buildings for business expansion.
4. Rehabilitate existing business structures.
5. Leverage private and other public investment to stimulate more resources for economic development in the City of Hayward.

Types of Small Businesses Assisted:

The Small Business Administration's definition of small business will be utilized to determine whether a business qualifies for assistance. Because of the high failure rate of start-up businesses, in order to participate in the program, companies must have been in business at least two years or be owner-operators who have managed a similar successful business for a minimum of two years. All assisted businesses must be credit-worthy businesses that lack access to conventional sources of capital. In many instances, these will be businesses that cannot meet conventional lender standards for time-in-business, minimum size of loan, maximum term of loan, or are businesses located in areas that have a negative image.

SERVICE AREA

The geographically defined service area for the program is the entire City of Hayward. However, the CDBG designated target areas will receive special incentive Revolving Loan Fund assistance. These neighborhoods are:

- * Harder/Tennyson
- * Burbank
- * Spring Grove
- * Mount Eden

LOAN REVIEW COMMITTEE

Loan packages will be evaluated and recommended for approval by a Loan Review Committee (LRC) composed of five members experienced in economic development and community needs. The LRC will have the following characteristics:

1. Two shall be experienced in commercial small business lending;
2. At least one member shall have at least five years of successful small business ownership or small business management experience;
3. One member will represent consumer interest and public benefit;
4. One member will be a lawyer or a CPA experienced in business/contract law and small business consulting or a small business owner or manager with at least five years of successful small business experience;
5. A minimum of two out of five members shall be a minority and/or a woman.

People who live or work in Hayward will have preference as Loan Review Committee members; however, persons with special expertise in business finance or management will be considered if they live or work within Alameda County. Loan Review Committee members will be subject to state and local conflict of interest rules. Each member of the Committee will serve a staggered 18 month term.

Nominations for the Loan Review Committee will be invited from City Council, City staff, the Economic Development Committee, the Chamber of Commerce and other interested groups. Since the Loan Review Committee will examine confidential financial, management, and market information for each business receiving in-depth technical assistance or applying for a loan appointments to the Loan Review Committee will be made by the City Manager, to maintain the confidentiality of business records. Committees and commissions appointed by City Council are subject to the Brown Act. Most businesses would not apply for a loan if it were required that their financial and competitive information be disclosed in public.

This committee will be staffed by the Economic Development Specialist who administers the Loan Fund. The Community and Economic Development Administrator will supervise the program. The Director of Community and Economic Development will maintain oversight of all Revolving Loan Fund operations, policy, and will have final loan approval for all Revolving Loan Fund loans.

Conflict of Interest Provisions

Applicants for the Loan Review Committee will be advised that they are subject to federal, state and local conflict of interest regulations. Section 570.611 of the Community Development Block Grant regulations prohibits any person from participating in a decision making process with respect to CDBG-funded activities who "may obtain a personal or financial interest or benefit from a CDBG-assisted activity, or have an interest in any contract, subcontract or agreement with respect thereto, or the proceeds thereunder, either for themselves or those with whom they have family or business ties, during their tenure or for one year thereafter."

It is proposed that the Council adopt California Government Code Section 87100 et seq and Form 730 of the Fair Political Practices Commission as the conflict of interest provisions for the Loan Review Committee. Loan Review Committee members will also be required to reveal all relationships with loan applicants at the point at which they are notified of the names of loan applicants and prior to any funding decisions. Additionally, a statement will be added to the loan application which states that the potential borrower has been informed of the names of the members of the Loan Review Committee and must disclose at this time whether the potential borrower or anyone with an ownership interest in the business entity is related by blood, marriage, law, or business to any member of the Loan Review Committee or any staff member of the Community and Economic Development Department or any member of City Council or the City Manager's office. A penalty clause will be placed in the loan agreement which stipulates that the loan will become due and payable if it is determined at any time that the borrower (or anyone with an ownership interest in the business entity) failed to disclose whether the borrower was related by blood, marriage, law, or business to any member of the Loan Committee or Community and Economic Development Department staff or any member of City Council or the City Manager's office.

Reporting

Biannually, City Council will receive a report on the Revolving Loan Program which will include but not be limited to: the names and addresses of the businesses receiving assistance, the amount and type of assistance, types of businesses assisted, types of loans made and the aggregate amounts of loans in each category, number of jobs created or retained, number of referrals and hires that resulted in jobs for low and moderate-income Hayward residents, amount of private and other public investment leveraged, and the financial health of the loan portfolio.

TYPES OF FINANCIAL ASSISTANCE

Loan Types

Financing will be provided for facade improvements, working capital, equipment loans, leasehold improvements and real estate loans. The maximum loan amount for working capital, equipment, and real estate is \$100,000. Facade improvement loans will have a maximum of \$5,000 per business facade.

Interest Rates

Since HUD's perspective is that small businesses have a problem accessing capital, rather than being able to pay the cost of capital and since the City is providing access to capital through the loan fund, the standard interest rates on working capital, equipment, and real estate loans will be the commercial prime lending rate. The interest rate for new loans will be reviewed quarterly and may be adjusted by the LRC to stimulate business development with the minimum amount of public subsidy. To stimulate neighborhood and commercial revitalization the interest rate for facade improvement loans will be three percent simple interest.

Repayment Terms

Repayment of facade improvement loans in target areas may be deferred for up to two years until sufficient cash flow exists to begin repayment. Due to CDBG

regulations, working capital loans will only be available to businesses serving target area residents unless job creation or retention results. Generally the maximum term on loans will be the economic life of the asset securing the loan but all loans will have review and call provisions to encourage those businesses that are able to "graduate" to conventional financing to do so as soon as possible.

The Revolving Loan Fund program will provide incentives for businesses to expand thereby increasing the number of jobs available. These incentives will take the form of longer loan amortization schedules, loan terms designed to meet cash flow projections, subordination of Revolving Loan Fund loans to conventional loans and deferred principal payments, if appropriate.

Leveraging Ratio

Since the primary focus will be on gap financing, private sector lending will be encouraged through participation loans and loan guarantees with conventional lenders. The Revolving Loan Fund program will strive to meet a minimum 2:1 leveraging ratio on the loan portfolio of private sources of funding to Revolving Loan Fund financing. Initial contacts with local lending institutions have indicated interest in cooperating with the program.

Equity

Owner equity will be required. The minimum level will be between 10 percent and 20 percent of the total project cost on all loans. Upon approval by the LRC, equity may include a cash infusion, the value of net working capital, independently appraised lien-free assets, retained earnings or such other ownership rights as deemed appropriate by the LRC.

Collateral

Collateral will be required for all loans.

Subordination

If approved by the LRC, the Revolving Loan Fund loan may be subordinated to loans by a private sector lending institution. In most cases, when conventional financing is part of the loan package, the RLF loan will be in second position; however, there are cases when a RLF loan is packaged with a Small Business Administration (SBA) loan, for example, where the RLF loan will be in third position. Since SBA loans are guaranteed by the federal government, the RLF loan is effectively in second position.

BUSINESS MANAGEMENT TECHNICAL ASSISTANCE (TA)

A primary reason for loan denials by local private lenders was small business borrowers' lack of business/management knowledge and ability. For this reason the Revolving Loan Fund Program guidelines allow the LRC to require that a business obtain specific technical assistance as a condition of their small business loan. Financing for needed technical assistance will be included in the borrower's total loan package; loan terms will be adjusted in order to mitigate the extra expense associated with the professional assistance. The business borrower will be responsible for identifying and contracting with technical assistance providers to meet the technical assistance conditions of the Revolving Loan Fund loan. To ensure that the technical assistance will meet the loan conditions, technical assistance providers will be approved by the LRC prior to loan closing.

FIRST-SOURCE HIRING

As a means of encouraging the employment of low- and moderate-income Hayward residents, businesses receiving intensive technical assistance, loans, or loan guarantees must sign a First-Source Hiring Agreement requiring that a minimum of 51 percent of all created or retained jobs will be made available to or taken by low- and moderate-income persons. Only businesses that specifically serve the target area will be eligible to have this requirement waived. The types of jobs covered under the First Source Hiring Agreement will be all of the employer's job positions that do not require special skills or education and any job that requires special skills for which the employer is willing to provide training. A job position requiring special skills is any job where the minimum qualification

is that the candidate possess one year or more of prior relevant training, work experience or post high school education. These are entry-level jobs which are not by definition low paying. Low and moderate income prospective employees will be recruited from all training agencies that work with residents of the City of Hayward and are willing to participate with the City in this program. Training agencies include but are not limited to Alameda County Training and Education Board and the Alameda County Department of Social Services GAIN program.

PROGRAM EVALUATION

CED staff shall report on a quarterly basis to the EDC. Criteria used to evaluate the Revolving Loan Fund will include but not be limited to:

1. Number of jobs created, retained or attracted to the City of Hayward as a result of Revolving Loan Fund loans;
2. Number of 'First-Source' employment referrals to and hires by Revolving Loan Fund borrowers that resulted in jobs for low- and moderate-income Hayward residents;
3. Number of loans for the construction of new business facilities, the rehabilitation of existing structures, facade improvements, working capital requirements and equipment purchases;
4. Amount of private and other public investment leveraged;
5. Financial health of the loan portfolio.

PROGRAM START DATE

Upon City Council Resolution, staff will begin the LRC nomination process, program marketing, and outreach. It is anticipated that the first loan will be in process approximately eight weeks after City Council approval.

3.61 FINANCIAL ASSISTANCE PACKAGES

	BUILDING FACADE	WORKING CAPITAL	EQUIPMENT	REAL ESTATE
MAXIMUM LOAN AMOUNT	\$5,000	\$100,000	\$100,000	\$100,000
AVERAGE LOAN AMOUNT	\$5,000	Between \$10,000 and \$50,000	Between \$15,000 and \$60,000	Between \$50,000 and \$100,000
INTEREST RATE (All rates will be reviewed on a quarterly basis by LRC and adjusted as needed)	3% per annum simple interest	Prime rate at time loan is closed	Prime rate at time loan is closed	Prime rate at time loan is closed
TERM (All loans will have review and call provision so that loans can be taken out by local lenders when possible)	5 years	Seasonal: less than 12 months Convent- ional: 12 to 24 months	Economic life of equipment	Amortiz- ation schedule may be 10 to 40 years but repayment due in five years and can be renewed for five more years
BUSINESS DEMON- STRATES IT SERVES TARGET AREA	Principal and interest deferred for first two years; repayment begins in year 3	May be fully amortized or balloon payment to meet cash flow project- ions	May be interest only for up to two years if cash flow project- ions indicate need	May be interest only for up to two years if cash flow project- ions indicate need

3.61 FINANCIAL ASSISTANCE PACKAGES

	BUILDING FACADE	WORKING CAPITAL	EQUIPMENT	REAL ESTATE
DOES NOT SPECIFIC- ALLY SERVE TARGET AREA	Amortized loan preferred but may be interest only depending upon cash flow	May be fully amortized or ballon payment to meet cash flow project- ions	May be fully amortized or ballon payment to meet cash flow project- ions	May be fully amortized or ballon payment to meet cash flow project- ions
OTHER TERMS		Owner must sign 1st source hiring agreement	Owner must sign 1st source hiring agreement May sub- ordinate to private lender	Owner must sign 1st source hiring agreement May sub- ordinate to private lender